THE INFORMATIONAL VALENCES OF THE FINANCIAL SIGNALS SYSTEM USED IN THE EVALUATION OF COMPANIES GLOBAL PERFORMANCE

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Abstract

For a long period of time the analysis of company's performance has been approached preponderant or only for financial point of view, but in the last half of century, because of an environment characterized by intensified competition, there have been elaborated and developed a number of measurement tools, the goal of which is to reflect all the factors involved in a company's performance.The practic goal of performance measurement, the standard it refers to and the measuring tools are tightly correlated with the objectives of each of the company's stakeholders. In order to obtain a good quantification of company's performance is necessary to use a system of indicators that may provide reliable information for evaluating the degree to which firm's objectives are reached. In this system, financial indicators remain, an essential tool of management, regardless the changes which affect the company's environment.

Keywords: performance measurement, financial indicators, company's performance, non-financial indicators, management, objectives

Introduction

For a long period of time the analysis of company's performance has been approached preponderant or only for financial point of view, but in our days the international settings where the company develops, they had reformed the mean of that analysis. The new analysis is based on the non-financial side, which includes some non-financial indicators, considered more efficient than those used in the second half of the 20th century. The most important indicators used were: in the '60s – the size of the company; in the '70s – the profitability and the return; in the '80s – the treasury; and in the present – "the performance is a competitive situation of company, which is achieved with a level of efficiency and efficacy.[3]

The structure, functions and in the importance of the financial performance's indicators system in the actual business environment

In the actual business environment it is inconceivable an approach of the economic and financial performance's indicators system for a company without emphasize the interfered changes in the structure, the functions and in the importance of this compare to global performance.

From the structural point of view the system of financial and economic indicators, this is the basic operational instrument of financial and economic analysis; it was structured by D Margulescu, in "The financial and economic analysis of commercial companies"[4] as it follows:

[3] Niculescu, M., Lavalette G., Strategii de creştere, Ed. Economică, Bucureşti, 1999.

[4] D., Mărgulescu, „Analiza economico-financiară a societăților comerciale", Ed. Tribuna Economică, Bucureşti, 1994, pp 32-36.

The indicators of the technical and economical potential of the company, such as: the indicators of capital goods, the indicators of fixed and circulating assets, indicators of human resources potential, the indicators for the capacity of research, the rates for the asset's structure of a company.

The indicators of financial potential, such as: the capital's indicators, the indicators of patrimony, the indicators of the working capital, the indicators for liquidity and solvency of the company.

The indicators of financial and economic statements, as the followings: the turnover, the added value, EBE, EBIT, EBITDA etc.

The indicators of efficient use for the technical, economic and financial potential, such as: the efficient rate of fixed assets, the efficient rate of circulating assets, the working productivity, the turnover of circulating assets, the efficient rates of expenses, the profitability rates, the rates of financial statements, etc.

Even though the financial and economic indicators are so diversified, this thing being emphasized by the complexity and the dynamic of the environment where the company develops, the classification above has the merit of answering to all actual and operational requirements of financial and economic analysis. But it is request for the research and for economic practices context, those introduce the concept of quality management, to indicate a new group of indicators alongside those shown above, and this new group has those quality indicators, which were constructed by an advice American company, named Stern Stewart.

Starting from the objective of the company, which is the value making for shareholders; this objective becomes automatically major criteria of evaluation and analysis of company's performances. The theory and economic practice have set a group of indicators that permit the wording of some pertinent valuations for the magnitude of shareholders returns, those being quantified by the following indicators:

- EVA (economic value added);
- MVA (market value added);
- LVA (liquid value added);
- The liquid profitability of investments;
- The total shareholders profitability.[5]

Those indicators are constructed starting from the premise due to the fact that organizations are making value as long as they can succeed in remunerate the capital at a high rate of profitability than the cost of this.

For the second aspect, represented by the applicability for the system of financial and economic indicators, we present three major functions of the financial measures of performance, and these functions are founded in theory and in the economic practice as well:

- the financial management instruments;
- the major objectives of the company;
- the instrument of motivation and the control in organizations, confirmed by the existence of a strong relations for the interdependence between those three.

The financial and economic indicators, in their capacity of being a management instrument, those represent the result of the treatment of internal and external information's, in order to formulate some pertinent approaches for financial and economic situation of a commercial agent, the identification of factors, causes and conditions which have determined it. Another important thing is represented by the improvement of the result with the internal resources from the point of view of efficient usage for human resources, material resources, financial resources; and in this way it can be make up an essential element for foundation of operative, tactical and strategic decisions, looking for: the allocation, the measure the proportions and the efficient usage of resources.

The variety of activities for a company and the complexity of the situations encountered for structure, level and financial and economic performances characteristics of this request the necessity of using a system formed by financial and economic indicators. The objective of the using this system of indicators is to offer for the organization's management, information about the real situation, which is shown by the financial

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[5] Gh. Vâlceanu, V., Robu, N., Georgescu, coord. "Analiză economico-financiară", Ed. Economică, Bucureşti, 2005.

and economic performance's level and also it is shown by those information requested for the control's execution of the way of fulfillment's charges and of the foundation of the future activity.

The second function of the system leeway evidently from the fact that for the all functions of the company are created some objectives shown in a monetary way in order to realize in the next stages the evaluation and the control of realization's level of this; those aspects are evidenced in the third function of the system.

The organization's objectives become attainable only if they obtain a concrete and positive size in the proportion management – return – value.

Relative to the third function of the indicators' system, the role of motivation reside from the determination "de facto" of the structure and the efficiency of the involvement's function, which has a great impact concerning the concretization of the others managerial functions, such as: the foresight, the organization, the coordination and the control – setting.

The motivation has an important impact on the characteristics and the applicability of the managerial system of an organization. The quality of decisions, the procedure of being operational, the methods, the techniques used, the managerial procedures and the general effects, the accuracy and flexibility of informational subsystem and also the applicability manners of organize of a company, these are conditioned by the motivation of the employees.

„Therefore, the financial side can be found in all the elements of the managerial activity, that is:

- in all of the management's functions: forecasting, organization, coordination, and control;
- in all of the management systems: the organizational system, the decision system, the system of methods and techniques, etc. Also, in all of the organization's functions (research and development, production, commercial, human resources and financial), financial elements (required resources – cost – profit – value) represent esential variables for decision-making".[6]

These assertions emphasize the interdependence among the three functions of economic and financial indicators, as they have been presented above.

Business performance measurement systems in the actual business environment

In the last half of century, because of an environment characterized by intensified competition, there have been elaborated and developed a number of measurement tools, the goal of which is to reflect all the factors involved in a company's performance. Each of these tools intends to be unique and comprehensive, and shifts the emphasize on non-financial indicators. We can mention here „The Performance Prism", a tri-dimmensional model for performance measurement, elaborated by professor Andrew Neely from Cranfield School of Management and Chris Adams from Andersen Consulting, during a research project called „The Evolution of Business Performance Measurement Systems". This tool has as its starting point what in the literatre is known as "stakeholder approach".

Stakeholder theory emphasize the difference between shareholders and stakeholders, who are social partners of the company, in an attempt to reduce the overwhelming importance of shareholders' interests in the "management through value" concept.

According to the shareholder theory, the interests of all of the company's social partners are of equal importance, but they are treated differently, as the intensity of relations between firm and a certain class of social partners (customers, employees, local and central public administration, professional organizations, various ONGs, unions, etc.) requires.

In this context, one of the management's goal is to maximize the firm's global value, taking into account the interests of all its social partners and the different relations between them and the company.

Based on the shareholder theory, professors Andrew Neely şi Chris Adams have built „The Performance Prism", a tri-dimmensional model of performance measurement which has five sides:

6. "stakeholders' satisfaction; more precisely, who are company's key stakeholders and what are theor needs and interests;
1. strategies; what are the strategies the company needs to follow in order to fulfill the interests of its key shareholders;

[6] I., Bogdan, „Management financiar în afaceri", Editura Universitară, Bucureşti, 2006, p.39

2. processes; what are the essential processes required by the implemented strategy;
3. capacities; what are the capacities required by the operationalization of these processes;
4. shareholders' contribution; what is the contribution of shareholders in order to maintain and develop these capacities." [7]

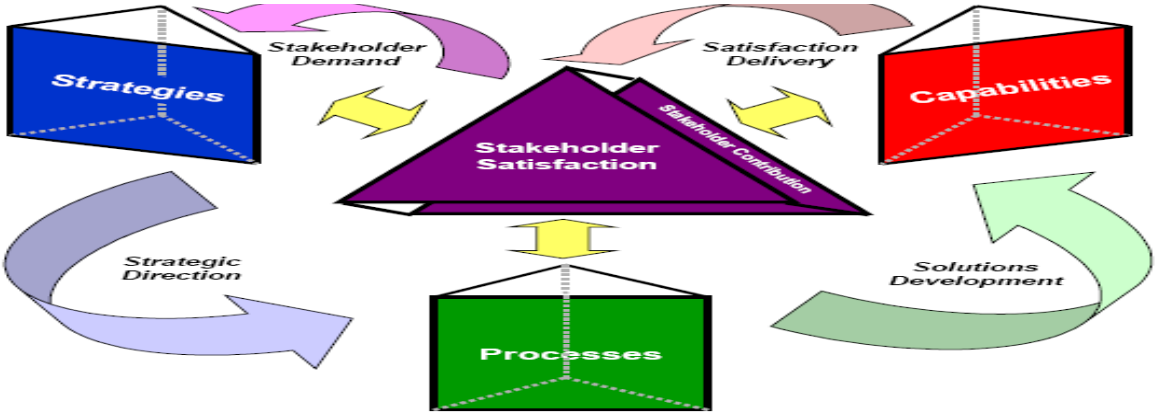

Figure 1 Performance Prism, Andrew Neely, Chris Adams, "Perspective on Performance: The Performance Prism",

The central element, the key point of "Performance Prism" is that all organizations have not only responsabilities, but also certain demands vis-à-vis their stakeholders. The company's performance cannot be regarded from a uni-dimmensional perspective. Instead, all the interdependencies among the organization and its stakeholders need to be approached comprehensively.

"The Performance Prism" attempts to reflect the hidden complexity that defines "the organization's world", desintegrating it into its basic constituents, like in physics a prism reflects the light, and emphasizes, once again, the crucial role of both financial and non-financial indicators in the fulfillment of company's strategic goals.

The practic goal of performance measurement, the standard it refers to and the measuring tools are tightly correlated with the objectives of each of the company's partners.

Table 1: The objectives of performance measurement for company's stakeholders

Stakeholder	The objective of performance measurement	Indicators used for performance measurement
0	**1**	**2**
Members of the Administration Council	Evaluating management quality and the capacity of sustainable growth. Establishing incentives for managers	- Output indicators - Efficiency indicators - Specific indicators for sustainable growth
Managers	Estimating strategic and tactic objectives	- Resources indicators - Efficiency indicators - Specific indicators for sustainable growth
Creditors	Estimating the firm's capacity to generate cashflows inorder to repay its due debt.	- Liquidity indicators - Solvability indicators - Cash-flow indicators
Employees	Establishing the type and level of remuneration	- Business indicators - Efficiency indicators - Specific indicators concerning the

[7] Andrew Neely, Chris Adams, "Perspective on Performance: The Performance Prism", http://www.som.cranfield.ac.uk/som/research/centres/cbp/downloads/prismarticle.pdf

	Evaluating the stability of the company	motivation of human resources
Customers	Estimating the production quality Evaluating the stability of the company	- Indicators concerning the production quality - Total quality indicators

For shareholders, the objective of performance measurement is the estimation of the company's value and the return of invested capital, the indicatorsused in this direction being net profit and ratios that can be built on it, and indicators that reflect the creation of value (EVA, MVA, CVA, etc.)

Conclusions

The complex and always changing aspects of economic phenomena and the diversity of specific conditions in which a company conduct its business make the attempt to measure performance a very difficult undertaking.

Therefore, in order to obtain a good quantification of company's performance is necessary to use a system of indicators that may provide reliable information for evaluating the degree to which firm's objectives are reached.

In fact, this is the central role of the system of indicators measuring the company's performance. In this system, financial indicators remain, an essential tool of management, regardless the changes which affect the company's environment.

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